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# Iran: Economic Prospects for the Islamic Republic

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An Intelligence Assessment

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July 1983

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# **Iran: Economic Prospects for the Islamic Republic**

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**An Intelligence Assessment**

This paper was prepared by [ ] with  
contributions from [ ] Office of Near  
East-South Asia Analysis, and analysts in the  
Energy Issues Branch, Office of Global Issues. It was  
coordinated with the Directorate of Operations. [ ]

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**Iran:  
Economic Prospects for  
the Islamic Republic**

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**Key Judgments**

*Information available  
as of 1 July 1983  
was used in this report.*

The regime in Tehran, bolstered by modest economic progress in the last year, is giving more attention to longer term economic goals. Because the war with Iraq is no longer the unifying force it once was, we believe the clerical regime feels an increasing need to demonstrate economic progress to the Iranian people.

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Iran will have to boost its oil exports beyond the OPEC ceiling to finance its ambitious development goals. We estimate that Tehran would need to make hard currency expenditures of roughly \$50-60 billion over the next five years after other import needs are met; the current level of oil earnings would provide only half this amount. Even if it lowers its development sights, the regime will be tempted to boost oil output well above its current OPEC-assigned quota of 2.4 million barrels per day (b/d). Its maximum current capacity is 3 million b/d.

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We believe Tehran intends to rebuild oil capacity to 4 million b/d. Depending upon the level of foreign participation, the Iranians could achieve this goal within one to two years. The current level of fighting with Iraq will not prevent Iran from reaching this target. A decision to boost capacity would increase Iranian influence—at the expense of the Saudis—in OPEC and in the world oil market. In the near term a firming of the oil market will tempt Iran to increase output, with or without OPEC's blessing.

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Increased oil revenues alone, however, will not be enough to assure rapid economic progress. Competition between clerical factions with different economic philosophies and shortages of technical and administrative skills will continue to be serious obstacles.

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One group of clerics and their secular supporters advocate accelerated government investment in industry and sweeping land reform in the countryside. Another group that includes powerful landholding clerics is arguing for a more gradual approach to development. The latter group opposes land reform and favors a larger role for private economic initiative.

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Rapid progress in rural development will be difficult, although there appears to be some consensus within the regime on the need for large-scale investment in agriculture, both to reduce dependence on foreign food suppliers and to promote a more stable and equitable social order. A successful program would require the Iranians to coordinate technical assistance, credit, and price policy.

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Nonoil industrial development could run into ideological problems despite Iran's renewed interest in large projects. Many conservative clerics are likely to object to the influx of Western technicians that most likely would be needed for a major industrial effort. [REDACTED]

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The Iranians will remain difficult trading partners for both the West and the USSR. When it can, Tehran will link the award of major projects to a corresponding obligation by companies or countries to market Iranian oil, petrochemical products, and metals. The inexperience of some Iranian negotiating teams, chosen for their political and religious reliability, will also hamper trade relations. [REDACTED]

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A lack of more rapid economic progress could accelerate disillusionment with the regime, even among the urban lower classes who have come to expect that the government will see to their needs. Dissatisfaction with economic performance probably would exacerbate growing war weariness, putting increasing pressure on Khomeini to seek peace with Iraq. [REDACTED]

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## Iran: Economic Prospects for the Islamic Republic

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### The Economy in 1982

The Iranian economy began a modest recovery in 1982 from some of the effects of the revolution, the war with Iraq, and a weak oil market. The level of economic activity, by our estimates, still remains low, perhaps only two-thirds that of prerevolutionary Iran. The construction sector, a key indicator of growth, remains severely depressed. Industry, despite recent gains, still operates well below capacity.

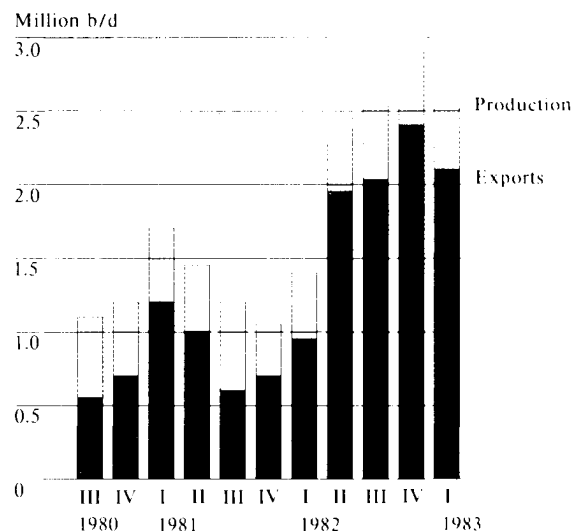
### Oil

Economic developments in Iran during 1982 were dominated by the impressive growth in oil production. Production rose from 1.1 million barrels per day (b/d) in January to 2.5 million b/d by July, according to reliable oil industry data. Exports for the year averaged 1.8 million b/d, double the 1981 level.

Iranian price discounts accounted for the dramatic rise in oil exports. By March 1982 Iranian light crude was being offered at prices averaging \$3 below the Arabian benchmark price of \$34. Discounts of this magnitude more than offset the high premium on war zone shipping and insurance charges of \$1 to \$2 per barrel required to lift Iranian crude.

The resurgence in oil exports brought with it a badly needed infusion of hard currency earnings for the regime. Foreign exchange holdings of the Iranian Central Bank, according to our estimates, had fallen by almost half during 1981—to \$10 billion—forcing the regime to impose stringent import restrictions. By mid-1982 oil earnings had rebounded, yielding over \$2 billion monthly and providing Tehran with the financial resources needed to sustain the war, meet minimum consumption requirements of the population, and rebuild foreign exchange holdings. We estimate that official assets at the end of 1982 were about \$13 billion.

**Figure 1**  
**Iran: Crude Oil Production and Exports**



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### Domestic Conditions

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Import restrictions were gradually eased during the latter half of 1982, and the greater availability of industrial materials and spare parts led, in turn, to increased industrial output. The Paykan auto plant in Tehran resumed assembly operations at midyear. Other manufacturing plants that had been operating at very low levels were reportedly able to increase production significantly. Iranian data indicate a 12-percent increase in industrial production during 1982.

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## Iran: Major Industrial Sites

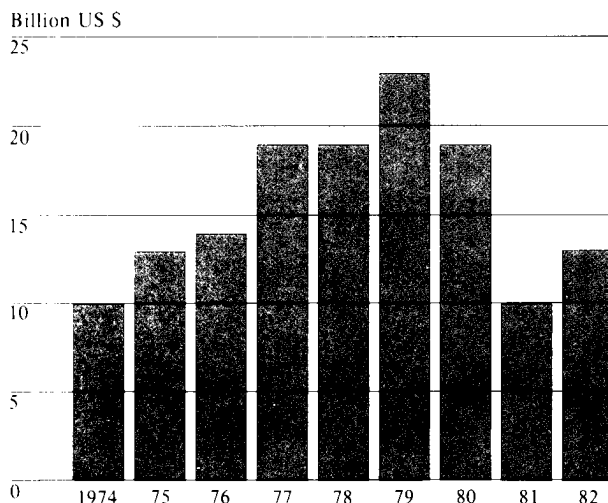


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**Figure 2**  
**Iran: Official Foreign Assets<sup>a</sup>**



<sup>a</sup> End of year.

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Increased availability of fuel and spare parts—and generally favorable weather—boosted agricultural production in 1982. The wheat harvest, [redacted] was estimated at 5.3 million tons, up slightly from the 1981 level and roughly comparable to production during the Shah's regime. Iran, however, still needed to import about 3 million tons of wheat in 1982 as well as large quantities of other foodstuffs to satisfy domestic requirements. Its heavy dependence on agricultural imports will remain largely unchanged during 1983.

Economic conditions for the population also improved. Based on statistics released by the Iranians, we estimate the rate of inflation during 1982 fell by one-half from the previous year—to 30 percent. Moreover, the majority of the urban lower classes remained relatively immune from inflationary pressures because the bulk of their food requirements is distributed gratis through the local mosques. [redacted]

Unemployment levels appear to have subsided only marginally. According to Iranian statistics, 3.1 million workers were unemployed during 1982 out of a

work force of 11.7 million, representing little change from the previous year's level. An unemployment rate of 30 percent is not unusually high for Third World countries. [redacted] large numbers of unemployed people are involved in black-market activities that yield unreported income, further mitigating the effects of unemployment. [redacted]

In late 1982 [redacted] an increased availability of consumer goods. Rationing of some goods, including gasoline, has ended. Better quality meats as well as consumer luxuries have reappeared on market shelves, generally in the "free," that is, black-market, bazaars. There appears to be no dearth of customers for such products despite high prices. Consumer prices, [redacted] are lower in central and southwestern Iran than in Tehran and the north, reflecting high transportation and other middleman expenses between southern ports and northern population centers. [redacted]

#### International Trade

Imports from the West lagged in 1982. Data for the year show imports from OECD nations at only 74 percent of the 1981 level. All major Western trading partners experienced shortfalls resulting from Iranian import restrictions. We believe 1983 will see renewed trade growth with the West. A large number of new contracts recently have been signed, particularly in the petroleum and power generation sectors. [redacted]

Imports from the Soviets and a few East European countries, on the other hand, expanded in 1982. According to Soviet data, the USSR recorded \$796 million in exports to Iran, a 40-percent increase over the previous year. Moscow's trade with Tehran was buoyed by continuing Soviet-sponsored industrial and transportation projects. We estimate military sales accounted for only \$100 million of Soviet exports in 1982. [redacted]

Total Iranian imports from the USSR and Eastern Europe in 1982, nevertheless, were only about one-fourth those from the industrialized West. Many of the Soviet projects are nearing completion, and no

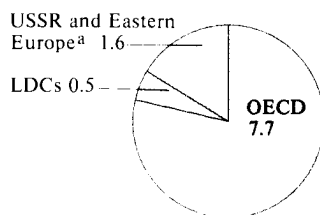


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**Figure 3**  
**Iran: Trade With the World**

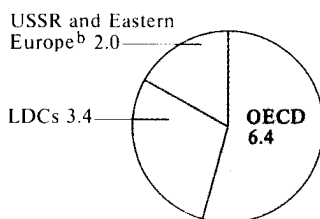
Billion US \$

**1981**  
**Imports**



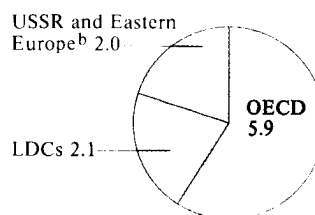
Total: 9.8

**Exports**



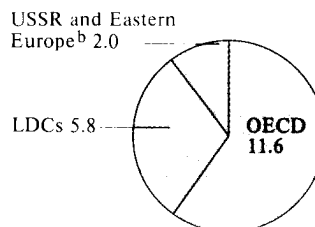
Total: 11.8

**1982<sup>a</sup>**  
**Imports**



Total: 10.0

**Exports**



Total: 19.4

<sup>a</sup> Preliminary.<sup>b</sup> Estimated—excludes data for East Germany.

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major new contracts have been signed. Moscow has expressed interest in buying Iranian natural gas that could be delivered through a pipeline that already links the two countries. But the recent souring of political relations between Tehran and Moscow clouds prospects for future trade growth. Also standing in the way of improved relations is Iran's intense bitterness over Soviet arms sales to Iraq.

Third World countries, especially the neighboring "friendly" Islamic countries of Turkey and Pakistan, expanded trade with Iran in 1982, bartering agricultural and light manufactures for petroleum. Despite Tehran's declared preference for Third World partners, trade with the LDCs was hampered by late delivery of goods, shoddy workmanship, and difficulties involved in arranging barter deals.

### The Debate Over Economic Policy

Having consolidated power and stabilized the economy, the government must now develop and implement an economic program that is consistent with its ideological predilections but capable of producing sustained growth. Major differences between political factions inside and outside the government have so far hampered implementation of economic policy.

Two major groups appear to be involved in the economic debate. A group of economic activists, called the Followers of the Imam's Line, advocate accelerated government investment in industry and sweeping land reform in the countryside. They also

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favor a strong role for the government in directing the economy through control over foreign trade and the nationalization of most industrial enterprises. Ayatollah Montazeri, Khomeini's heir apparent, and President Khamenei support these positions. [ ]

On the other side stand a group of conservative clerics, known as the Hojatiyeh, and their allies who generally oppose the sweeping economic reforms and rapid development plans advocated by the economic activists. Ayatollah Musavi-Aradabili, the head of the judiciary, and former Prime Minister Ayatollah Madavi-Kani are two prominent supporters of this position. [ ]

The economic conservatives advocate a more gradual approach to development that will not threaten the "Islamic" character of the Iran they wish to preserve. Many of the conservative clerics within this group have extensive rural landholdings and, not surprisingly, are adamantly opposed to land reform measures. Some of these clerics also maintain strong links with the bazaari merchant class, [ ]

[ ] and therefore resist efforts to put foreign trade under exclusive government control. In general, this group favors less concentration of power in the central government's hands and a larger role for private initiative in developing the economy. [ ]

Neither group has enough influence to impose its views on the other, and their disagreements have stalemated policy in a number of areas. The Iranian parliament, or Majles, passed an extensive land reform bill in 1982 after a long debate in which economic activists played a major role. The bill, however, was returned to parliament as "un-Islamic" by the conservative-dominated Council of Guardians, whose task is to ensure that legislation complies with the constitution and Islamic law. A bill to nationalize foreign trade passed by the Majles was also returned to the legislature by the Council of Guardians as unacceptable. [ ]

Despite resistance by the conservatives, the economic activists have made some progress toward achieving their goals. Iran's foreign trade is dominated by executive government agencies, which can act without formal clearance through the Council of Guardians. Since the activists for the most part head the executive agencies, they reportedly are proceeding with

limited land distribution schemes and other rural sector development, bypassing the more conservative Majles and the Council. [ ]

Activist programs in the development plan could also grow in importance if, as we believe, Khomeini and prowar factions in the regime come under greater pressure to offset the impact of war. Already a serious drain on Iran's economic resources and foreign exchange, the conflict is increasingly sapping both popular and military support as battlefield reverses over the past year have made the likelihood of victory remote. Public criticism of the war is growing, even among some government officials who are suggesting less strident terms for an acceptable peace. Small antiwar demonstrations reportedly have taken place in cities near the front. Khomeini, who has ultimate say on the conduct of the war, may need to show economic progress if he is to deflect criticism—and keep morale high—long enough to win what has increasingly become a war of attrition. [ ]

Current disagreements on the direction of economic policy are not likely to impede development plans seriously so long as Khomeini is on the scene. Khomeini's presence will ensure the two groups compromise on vital issues. Even so, the threat of retribution from the conservatives has for the moment intimidated a number of activists including Rafsanjani, the powerful Speaker of parliament. [ ]

The development program, however, is likely to founder during an immediate post-Khomeini era, as economic decision making falls victim to almost certain factional disputes over the succession. Until the succession question is resolved, the activists probably will not push contentious economic policies that may provoke a backlash should the conservatives win in the power struggle. The attention of both the activists and the conservatives also will be absorbed by the maneuvering for political power. Once a new clerical leadership emerges, the struggle between the activists and the conservatives that will decide whether Iran swings to a strong public-sector economy or stays on a course directed by Islamic tenets is likely to resume. [ ]

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**Main Elements of Iran's Five-Year Plan**

The primary goal of Iran's new five-year plan (1983-87) is "economic independence," defined by the Iranians as the attainment of a high level of autonomy in both agriculture and industry. [REDACTED]

Investment is to be centered in the rural sector. Other sectors of the economy are to provide materials and services required to support this effort. The plan projects a 7-percent average annual growth rate for agricultural production. Key areas for investment are rural roads, water and power, and communications facilities. The government is to provide technical assistance, credit, and price supports to stimulate agricultural production. A "reasonable" distribution of lands not presently being cultivated, that is, limited land reform, is also included within the Development Plan indicating activist retreat from more radical land reform measures. [REDACTED]

The emphasis on rural development appears to stem in part from a wish to at least slow the movement of rural population into crowded urban areas. The clerics also hope to achieve self-sufficiency in food production and eliminate dependence on foreign suppliers. [REDACTED]

In the industrial sector, development plans focus on petroleum, metallurgy, and electric power. Highlighted within the 30 petroleum-related projects, many of which are holdovers from the Shah's period, are:

- The Kangan Gas Gathering and Treatment Facility, designed to produce 40 million cubic meters of gas per day with half its production designated for oilfield reinjection and half diverted to a distribution network.
- Construction of a new oil refinery, probably at Arak.
- Construction of the Domestic and Industrial Gas Distribution Systems, seven main distribution networks designed to cover all regions of Iran. [REDACTED]

Metallurgical projects include expansion of the Soviet-built Esfahan steel plant and completion of the Ahvaz steel complex. A pipe plant is also slated for

construction, and the Sar Chashmeh copper complex and Arak aluminum plant are scheduled for completion. [REDACTED]

At least seven large thermal power plants are also to be built in Tehran, Shiraz, and other cities while the government also proceeds with construction of small mobile power substations, largely for rural areas. Iran currently suffers from an acute shortage of electrical generating capacity. [REDACTED]

**Weaknesses of the Plan**

There is a strong probability that Iran has overestimated the revenue that will be available to fund its programs. We calculate the cost of all the petroleum projects in the plan at about \$15-20 billion. Activating the Bandar-e Khomeyni petrochemical complex alone will cost about \$1 billion. Funding for the remaining industrial projects as well as ambitious agricultural/rural development plans could easily bring total hard currency projected costs of the five-year plan to \$50-60 billion. The government will be almost entirely dependent on earnings from oil sales to obtain the necessary revenues to support these projects. [REDACTED]

The Iranian Government has budgeted \$14 billion for development projects in FY 1984 alone. Most of the projects will be highly dependent on imports. Imports in FY 1983—which saw very little development spending despite ambitious budget allocations—cost \$11 billion. If such nondevelopment imports hold steady at \$11 billion in FY 1984, total import requirements could approach \$25 billion. [REDACTED]

Although the Iranians have assumed oil revenues of at least \$26.5 billion for the 1983-84 budget year, they are unlikely to achieve this goal. The 2.4-million-barrel-per-day OPEC production quota assigned to Iran, coupled with lower prices since the March OPEC agreement, will yield only about \$19 billion—perhaps less if the oil market shows further weakness. Borrowing on the international credit markets could make up some of the difference, but we doubt the

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**Table 1**  
**Iran: Government Finances***Billion US \$*

Fiscal Year <sup>a</sup>	1978	1983	1984
<b>Expenditures (budgeted)</b>			
Current	17.3	22.9	23.2
Development	13.1	10.8	14.1
War	0.0	6.4	4.1
Reconstruction	0.0	1.6	1.2
Other	3.9		
<b>Total</b>	<b>34.3</b>	<b>41.7</b>	<b>42.6</b>
<b>Revenues (budgeted)</b>			
Oil and gas	21.2	17.5	26.5
Taxes	6.3	8.0	10.0 <sup>b</sup>
Other	1.3	6.2	7.0 <sup>b</sup>
<b>Total</b>	<b>28.8</b>	<b>31.7</b>	<b>43.5</b>
<b>Balance</b>	<b>-5.5</b>	<b>-10.0</b>	<b>0.9</b>

<sup>a</sup> Fiscal year begins 21 March and ends on 20 March for the year indicated.<sup>b</sup> Estimated.

regime—given its opposition to dependence on the West—will tap this source of funds. Nor would Western banks be likely to extend large loans to a regime still regarded as a major political and economic risk. [ ]

Even if adequate financing were available, the Iranians would encounter formidable political and practical problems in finding the skilled manpower necessary to implement the plan. The flight of Western and Iranian professionals since the revolution has created a chronic shortage of technically trained personnel. [ ]

Most of the major projects will require significant numbers of skilled technicians and workers. Iranian consulting and engineering companies tasked with overseeing oil, gas, and petrochemical contracts with the West reportedly are asking Western companies to assign their engineers to Iranian firms in order to assess production and refining problems. But the minimum 20,000 to 30,000 Western workers we

estimate the plan would require would, we believe, spark a political backlash among conservative elements within Iran who would argue the regime was repeating the Shah's mistakes. [ ]

The Iranians could probably absorb an additional several thousand Westerners to work on development projects and still avoid political repercussions. Most foreigners could be kept physically isolated from main population centers as the Italians presently are at Bandar-e Abbas. There are about 2,000 Western, non-Communist workers in Iran today. Nevertheless, to acquire the numbers of skilled workers it will need, Iran will have to make a major change in its attitude toward foreign labor, especially from the West. Tehran also will have to end the war as another prerequisite for the return of most foreign workers to Iran. [ ]

The regime also has recently invited expatriate Iranians to return, promising amnesty and return of property confiscated during the revolution. Some Iranians may take advantage of the government's invitation, but we are unaware of any substantial return to date. Meanwhile, significant numbers of the middle class continue to flee the country. [ ]

Iran will have to improve its political credibility with the middle class if it is to entice educated expatriates to return. These Iranians will remain fearful of the consequences should they return home. The regime so far has no comprehensive legal, administrative, and financial structures to woo back these exiles and to guarantee their security. Instead, the regime has made Iranians abroad wary by reneging on some earlier concessions. [ ]

Shortages of trained manpower, while posing serious problems for industrial development, would present even more difficulties for rural development. Large numbers of agroengineers, health care workers, and teachers are needed to provide vital technical, medical, and educational assistance at the grass-roots level. [ ]

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**Table 2**  
**Iran: Current Account Balance**

Billion US \$

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Exports (f.o.b.)	21.6	20.0	23.3	24.2	21.7	21.1	13.5	11.8	19.4	23.0
Oil	20.8	19.3	22.5	23.5	21.2	20.3	12.9	11.3	18.7	22.3
Nonoil	0.8	0.8	0.9	0.7	0.4	0.8	0.6	0.5	0.7	0.7
Imports (f.o.b.)	-7.3	-12.9	-16.0	-15.8	-16.2	-8.0	-10.8	-9.8	-10.0	-11.2
Trade balance	14.3	7.1	7.3	8.4	5.5	13.1	2.7	2.0	9.4	11.7
Net services and private transfers	-1.3	-2.4	-2.8	-2.8	-3.2	-1.0	-2.3	-3.1	-3.3	-4.2
Freight and insurance	-0.9	-1.7	-2.2	-1.9	-2.2	-1.1	-2.7	-2.9	-2.5	-2.2
Investment income receipts	0.5	0.6	0.8	1.0	1.3	2.1	2.4	1.8	1.1	1.4
Other	-0.9	-1.3	-1.4	-1.9	-2.4	-2.0	-2.0	-1.9	-1.9	-3.4
Grants	-0.1	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0	-0.0
Current account balance	12.9	4.6	4.5	5.6	2.3	12.0	0.4	-1.1	6.1	7.5

### Prospects for Economic Growth

#### Oil

Iranian oil pricing and production policy—along with the availability of trained manpower—will remain the critical determinant of growth. Over the near term Tehran is likely to abide by the OPEC production and price guidelines. The Arab Gulf states, with their sizable unused capacity and ample official reserves, could outproduce, outprice, and outlast Iran in any price-cutting competition. Moreover, Iran's current official prices are competitive in the world market.

Iran, however, may be hard pressed to maintain its price level later this year. Following the OPEC accord, Tehran cut its official crude price to \$28 per barrel for Iranian light—only \$1 below the Arab light benchmark. Because of its refusal to offer additional discounts, Iran, so far, has been able to sell Japanese consumers only 150,000 b/d compared to anticipated contracts for 450,000 b/d. Tehran may be forced to offer additional discounts of as much as 50 cents to \$1 to prevent any further slide in exports.<sup>1</sup>

<sup>1</sup> Iranian oil exports could be disrupted by sustained Iraqi attacks on Khark Island, through which 90 percent of Iranian exports flow. Iraqi attacks on this vital installation through nearly three years of war have been sporadic and largely ineffective. Unless Baghdad becomes truly desperate, we consider the likelihood of sustained and successful Iraqi attacks on Khark to be unlikely.

A firming of the market during the latter half of the year, as most industry analysts expect, will probably tempt Tehran to exceed its production quota to earn more revenue.

A further drop in oil revenues because of a renewed weakening of the oil market and a drop in price could also push Iran to increase production, but Iranian output options over the near term are limited.

Iran's production capacity is limited to about 3 million b/d, but Tehran apparently has decided to increase production capacity—perhaps to a level of 4-5 million b/d—in order to improve its revenue potential. The major constraint to expanding production is the reopening of shut-in wells, and the Iranian National Drilling Company has been ordered to devise well workover and completion plans.

Because Iran has only a few operable rigs, we estimate that, without external assistance, it will take up to two years to increase production capacity by 1 million b/d.

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with substantial foreign participation, such a program could be substantially completed within one year. [redacted]

[redacted] An Iran capable of producing 4-5 million b/d could, depending upon market conditions, again undermine world oil price stability and put added pressure on the economies of Saudi Arabia and the other Arab Gulf states. [redacted]

The Iranian Government is also making a major effort to settle privately the outstanding claims of major international oil corporations it hopes to do business with in the near future, another sign of major investment plans. [redacted]

#### Agriculture

The regime will be forced to move slowly in the high-priority agricultural sector. A successful program will require not only sizable investment in infrastructure but skill in coordinating the technical assistance, credit, and price supports needed to stimulate farmers. The administrative and technical skills needed to undertake such a nationwide program are in short supply, and resistance to land reform in the countryside by powerful landholding clerics is also likely to impede progress. In addition, the large subsidies provided to urban lower classes will continue to frustrate government objectives as rural populations flee the countryside for the benefits of urban life. Agricultural output, including major crops of wheat, barley, and rice, will not keep pace with domestic demand over the plan period—let alone allow Iran to reach self-sufficiency. [redacted]

#### Nonoil Industry

The nonoil industrial sector will make only slow progress toward self-sufficiency. Attempts to build an industrial base that focuses on large-scale projects including metals and electric power will lead to increasing requirements for imports of materials and equipment in the near term. The completion of showcase projects, such as the Esfahan Steel Works, probably will not generate substantial production and employment opportunities. Iran cannot yet use substantial quantities of the steel domestically, and export markets are limited. Moreover, decisionmaking

in the hands of clerics with little administrative or technical expertise is likely to make a coordinated program difficult to implement [redacted]

#### Trade Practices

The increase in Iranian oil export earnings and Tehran's new emphasis on economic development will give Western countries and Japan greater opportunities for trade with Iran. Tehran, for its part, needs Western equipment, technology, and skilled workers to realize its economic goals. Political relations, however, are not likely to keep pace with expanded trade because of the opposition of some Iranian leaders to moves that would draw Iran closer to either the West or the East. [redacted]

Doing business with Iran will not be easy for Western firms. With the exception of National Iranian Oil Company negotiations, it appears that many Iranian negotiating teams are inexperienced and unfamiliar with international business practices. Based on their negotiating tactics with several Western firms, we believe members of some Iranian negotiating teams are chosen more for their political and religious reliability than for their business talent. [redacted]

The Iranians will also probably attempt to drive hard bargains, linking, when they can, the award of major projects to a corresponding obligation by companies or countries to market Iranian goods, including oil, petrochemical products, and metals. Tehran also is likely to favor projects that will minimize imports by using domestically available resources. In light of past Iranian preferences, we would expect much of Tehran's major contract awards will be allotted to West Germany, Italy, and Japan. [redacted]

Commercial relations with US firms may grow modestly even while the regime maintains a virulent anti-US stance. The Iranians' longstanding preference for American products combined with the US technological lead in areas critical to Iran, including petroleum

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engineering and telecommunications, will exert pressure on Tehran to ease its rules about doing business with the United States. [redacted]

[redacted] If direct business relations with the United States increase, we would expect that Iran will insist that companies use non-American nationals as much as possible. Purchases of American goods through third-party West European and Turkish companies probably will continue. [redacted]

The recent deterioration in political relations between Iran and the USSR is likely to dampen the possibility of major trade accords between the two countries, at least during 1983. Iran's growing hostility toward the USSR will make it all the more difficult for the two countries to settle price disputes that stopped Iranian natural gas deliveries in the late 1970s. Moreover, Tehran's longstanding distrust of Moscow—especially after its incursion into Afghanistan—will not allow the Soviets to capitalize politically on their increasing trade with Iran. [redacted]

Trade relations with other Communist countries over the next year probably will show only modest growth. The Communist countries are likely to face stiff competition from West European and Japanese firms. The East Europeans and the Soviets probably will bid for major metallurgical and power projects in Iran, an area where they have some comparative advantage. Contract awards to the Soviets and their allies in many cases probably will be based more on an Iranian wish to lessen dependence on the West than on any real advantage that trade with the Communist countries confers. [redacted]

Economic agreements will provide little political influence with Tehran, regardless of the countries involved. Preoccupied with xenophobic Islamic tenets, Iran will be loath to allow a substantial foreign role in its affairs. [redacted]

### Postwar Prospects

Once the war with Iraq ends, Iran will be able to proceed with additional projects including the reconstruction and expansion of petroleum-related facilities located near the war zone. Although Tehran reached an agreement with Tokyo in May 1982 for Japan to repair and complete the \$3.5 billion Bandar-e Khomeyni petrochemical complex—85 percent complete when the war started—the Japanese have stated they will not return to the site until the war is over. Iraq has warned the Japanese it will attack the facility if construction resumes. Iran also intends to rebuild and expand the refinery at Abadan, one of the world's largest, which was damaged early in the year. [redacted]

An end to the war also will allow Iran to begin repairs to ports along the Shatt al Arab, the key waterway that separates Iran from Iraq. The ports at Khorramshahr and Abadan handled over one-third of Iran's seaborne dry cargo trade before the war but are now idle. Iran will need at least a year to repair the damage to the facilities at Khorramshahr. Abadan, on the other hand, could quickly resume operations. [redacted]

Iran will also need to dredge the Shatt to Khorramshahr if large cargo ships are to use the channel. Clearing the Shatt will take at least six to nine months, assuming the necessary equipment and trained personnel are in place and Iraq cooperates in the effort. [redacted]

To reduce the vulnerability of its oil exports to enemy action, Iran is planning to build a new oil export terminal on the Gulf of Oman as an alternative to Khark Island. The plans include a dual pipeline to carry the oil from the fields to the terminal. NIOC soon will select an engineering firm to study the feasibility of the pipelines that will be capable of

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carrying 2 million b/d of crude. [REDACTED]

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When hostilities cease, Iran will rebuild the nonoil industrial and agricultural sectors in the war zone, which includes most of Khuzestan Province. It can easily return at least 2.5 million acres of farmland—about 15 percent of total cropland—to production. The war apparently has caused relatively little permanent damage to agricultural land and irrigation systems. Tehran also will reconstruct the transportation and communications links that were not essential to the war effort. [REDACTED]

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